

Since starting 2006, we are explaining the **step-by-step process of setting up a spending plan and putting it into place**. In the first month's article, we looked at “Getting Started,” where we determine exactly where you're currently spending money using an expense diary and the “Existing Spending Plan” form. The second month, we went to the next leg of the journey, “Mapping Out the Route,” which is the start of creating your “New Spending Plan.” We talked about some of the road hazards along the way. If you missed any articles, you can find them and the forms on our website ([www.livingwelloc.org](http://www.livingwelloc.org), see the page “Managing Money” and click on “Navigating the Financial Roadway”). This month we continue the explanation started last month of the expense categories which are an integral part of the spending plan.

**Insurance** Includes all insurance payments, not associated with the home or vehicles (those should be allocated in other categories). Medical, life, and disability premiums are included in this category. Only include payments for policies that are your responsibility. In-other-words, if premiums are covered by your employer, union, or other entity, they are not included here. We often find that basic term life insurance is the best value for most families. Check with your insurance advisor to determine which kind of life insurance best suits your family. And don't forget life insurance for your spouse and children. It is typically inexpensive and can be very valuable, especially if your children have college loans.

**Medical/Health** This is where you budget money for physician and dentist costs that are not covered by your medical insurance. This would include co-pay amounts and deductibles. Also included are expenses for eye glasses, contact lenses, etc. that aren't covered. A growing expense in our society is prescription medicine. It is included in this category. Any medically related equipment needs are also included here. This category can be a little hard to estimate for some, since many medical expenses are unexpected. The best way to come up with a reasonable spending plan allocation is to take the last 12 months in medical costs and divide by 12. This will at least give you a starting point in coming up with a realistic monthly allocation.

**Clothing** Many people think they can skip this item, especially if the budget is tight. That won't work unless you live in a nudist colony! Even if you don't buy the latest fashion trends, clothing wears out and must be replaced. It is always best to allocate separately for each member of the family, since needs vary according to age, sex, vocation, etc. Many people don't realize how much they actually spend on clothing. The expense diary and reconstructing the past 12 months expenditures will be helpful in coming

up with starting amounts. **We have found having separate clothing accounts for family members to be a great tool in teaching children the value of purchases and takes much of the emotion out of buying them clothing, especially when they reach the teen years.**

**Personal** This is sort of a miscellaneous type expense category. Most items are fairly self-explanatory, but here are a few comments....We do not recommend carrying college expenses with the school expense line item. College expenses should be a completely separate, additional category. We highly recommend that Christmas expenses be separate from general gift expenses. Accumulate Christmas spending allocations throughout the year and then only spend up to the amount in that category! We like to show cell expenses in this category, unless the cell phone is your only phone. Otherwise, contrary to popular belief, cell phones are actually a luxury and not a necessity. **This category is also where you allocate “spending money.” This includes both adults and children. It is very important for everyone to have some “pocket money” that they can spend any way they wish, no matter how small the allowance might have to be.**

**Entertainment** Most people underestimate how much they spend in this category. The expense diary usually is an “eye opening” experience here. **You should include all eating out, including fast food, pizzas, etc.** Fees for youth sports leagues, such as soccer and baseball, go here. We now advise including Internet service expense here, since for many the Internet is more of an entertainment item than anything else. Similar to the Christmas line item, you accumulate vacation funds monthly and then only spend what you've accumulated. That way, you don't charge your vacation on a credit card and try to figure out how to pay for it later!

**Debt** Our final category is one that you actually don't want to have and should do everything possible to eliminate from your spending plan. This category does not include mortgage or vehicle loan payments. **It is vital that all other debt, no matter how large or small, be included on you Debt Summary Form and in these expense category.** It is also crucial that the maximum amount possible be paid toward each debt each month. This can be a very discouraging category, since many families have a lot of debt. **Debt can be eliminated however by following a good spending plan and not accumulating additional debt.** We will have an in-depth look at debt elimination in a future insert.

If you are married, it is absolutely crucial that there be agreement between husband and wife on all spending category amounts.

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